

**BILL #** SB 1056/SCR 1009

**TITLE:** exemption; service connected disability

**SPONSOR:** Blendu

**STATUS:** As Introduced

**REQUESTED BY:** Senate

**PREPARED BY:** Hans Olofsson

## **FISCAL ANALYSIS**

### **Description**

Conditional upon voter approval of SCR 1009 in the next general election, SB 1056 would provide a property tax exemption for disabled veterans. The amount of the exemption is in direct proportion to the percentage rating of a veteran's service connected disability. For example, a veteran with a 50% service connected disability who meets the requirements under the proposed legislation would receive an exemption equal to 50% of his or her primary residence's assessed valuation.

To qualify for the property tax exemption under SCR 1009, the disabled veteran's household income cannot exceed: (1) \$18,840 if there is a spouse or children living in the home, and (2) \$13,200 for any other living arrangement. In addition, SCR 1009 requires that the disabled veteran must have been a resident of Arizona on either the date that he or she enlisted into the Armed Forces or was honorably discharged from the Armed Forces. SCR 1009 requires that the veteran's service connected disability must be at least 10% and provides that if the veteran dies, the surviving spouse will enjoy the same exemption as long as he or she continues to reside on the same property and remains unmarried.

### **Estimated Impact**

The JLBC Staff cannot estimate this legislation's fiscal impact with certainty due to a lack of data. Based on a set of simplifying assumptions, however, the impact is not expected to be greater than a cost of \$4.3 million or a savings of \$(1.6) million. The bill will reduce statewide net assessed valuation (NAV), which will increase the state's K-12 education formula cost. That impact, however, could be offset by reducing the cost of automatic school tax rate reductions. Lower assessed value requires less of a tax rate reduction.

### **Analysis**

According to the Arizona Department of Veterans' Services (ADVS), the veteran population in the state was estimated to be 562,400 as of September 30, 2003. ADVS does not know how many of these veterans have service connected disabilities. However, the department informed us that among the entire U.S. veteran population about 10% receives disability benefits. If we apply the same figure to the Arizona veteran population, we obtain a statewide estimate of 56,240. This figure represents a potential maximum amount of veterans in the state that would be eligible for the proposed property tax exemption.

SCR 1009 stipulates that for a disabled veteran to qualify for the exemption, they must own (or "possess an equity interest in") the property they live on. This property must also be their primary dwelling place. This provision will make some of the state's disabled veterans ineligible for the exemption. In an attempt to quantify the impact of this provision, we applied the 2004 U.S. homeownership rate of 69% (provided by the Census Bureau) to the 56,240 potential property tax exemptees identified above. This calculation reduces the number of disabled veterans eligible for the exemption to an estimated 38,800.

To qualify for this exemption, a disabled veteran's household income is not allowed to exceed \$18,840 if there is a spouse or children living in the home, or \$13,200 under any other living arrangement. (Note that several benefits, such as Social Security benefits and veterans disability pensions, are not included under the definition of "household income.") This requirement will further reduce the number of eligible veterans. However, since the Department of Revenue does not currently track state income tax returns filed by veterans, we are not able to infer that number.

Besides the income requirement, a disabled veteran must also meet the residency requirement under this proposal. SCR 1009 stipulates that for a disabled veteran to qualify for the exemption, must have been a resident of Arizona on either the date that

he or she enlisted into or was discharged from the Armed Forces. However, no data exists that would allow us to determine how many veterans would be excluded from the property tax exemption due to a failure to meet the bill's residency requirement.

Based on our analysis above, we expect the number of disabled veterans that would qualify for the property tax exemption to not exceed 38,800. Because of the income and residency requirements, it is possible that this number would be lower than 38,800. However, for the purpose of this analysis, we have decided to use this figure as a starting point for determining what the "high end" estimate of this bill could be.

Data from the U.S. Department of Veterans Affairs provides a nationwide breakdown of the degree of service connected disability. We applied the national percentage distribution to the 38,800 potential Arizona property tax exemptees identified above. We further assumed that the average assessed value of the homes owned by eligible veterans is \$12,533. (The corresponding full cash value is \$125,330, which is the statewide average for residential property.) Since the amount of the exemption is proportionate to the percentage rating of a veteran's service connected disability, we computed the average exemption amount corresponding to each degree of disability. Based on these calculations, the bill would generate a property tax exemption of \$168.7 million.

Under the Basic State Aid formula, the state pays for the cost of K-12 education not generated through local property taxes. The state also pays 35% of residential property taxes through the Department of Education Homeowner's Rebate program. By reducing NAV by \$168.7 million, the bill will result in a direct increase of the state share of K-12 funding by about \$4.2 million. This includes the net impact of both Basic State Aid and the Homeowner's Rebate.

This NAV reduction will also generate savings in the cost of the state's Truth in Taxation (TNT) program. TNT reduces the school Qualifying Tax Rates (QTR) to offset growth in existing property values. This reduction occurs automatically unless the Legislature decides to forego the TNT adjustment. Prior to the passage of SB 1056, the school tax rate is expected to be reduced by 13¢ in 2006, which will increase the state's Basic State Aid cost. By reducing NAV, the legislation would result in the tax rate reduction being 2¢ less than expected, which will save \$5.8 million.

The proposal will also have a small impact on state General Fund revenues. Although the state property tax was repealed in 1996, the General Fund still receives property tax revenues from unorganized districts and school districts that levy the minimum qualifying tax rate. The JLBC Staff estimates that the net impact will be less than \$100,000.

The JLBC Staff does not have a definitive estimate of the legislation's impact due to data limitation. With some simplifying assumptions, however, a maximum cost can be derived. The fiscal impact of this bill will also depend on whether the TNT impact is included. In the absence of a TNT adjustment, the JLBC Staff estimates that the net cost to the General Fund will be about \$4.2 million. If the QTR is adjusted to account for TNT, however, the bill would have a General Fund savings of \$(1.6) million. This amount reflects the net impact of a \$4.2 million increase in the state's share of K-12 funding and a \$(5.8) million saving from a lower than expected tax rate reduction.

### **Local Government Impact**

This bill would shift the tax burden to property owners not affected by this legislation and/or result in property tax losses for local governments.